



BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

BEN S. BERNANKE
CHAIRMAN

June 27, 2008

The Honorable Paul D. Ryan
Ranking Republican
Committee on the Budget
House of Representatives
Washington, D.C. 20515

Dear Congressman:

This letter is in response to the report, "A Roadmap for America's Future," that you recently sent to me. Your report addresses some of the most important long-term fiscal and economic challenges faced by our nation. In coming years, many factors will influence our economy, but it is likely that two of the most pervasive issues will be developments in our health care system and the aging of our population. Indeed, fast-rising health care costs and the demographic transition associated with population aging are the primary sources of the unsustainable long-term budget paths projected by federal budget analysts. These developments will require the nation to choose among reductions in federal spending for health and retirement programs, cuts in other types of federal outlays, higher taxes, or some combination thereof, in order to avoid the economic costs and risks associated with the sharply higher budget deficits that would result from failing to make these difficult choices. In turn, the decisions that are made regarding federal budget and tax policies will affect the pace of future economic growth, incomes and living standards, how the costs of federal government programs are distributed within and across generations, along with many other features of our economy.

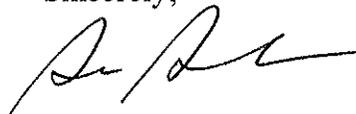
Improving our health-care system to make it less costly, more efficient, and more accessible is important for our nation and is the biggest challenge faced by fiscal policy makers. Last year, health care accounted for about one-quarter of total federal spending. The Congressional Budget Office projects that health spending will account for almost one-half of all federal non-interest outlays by 2050 under current policies. Such a projection underscores the importance of giving timely consideration to the reform of the federal health-care programs as part of an overall plan to move the federal budget onto a track that is sustainable.

The unavoidable trend in the aging of our population will put increasingly large financial strains on the Social Security program as the number of people expected to be working and paying taxes into the system rises more slowly than the number of people projected to be receiving benefits. This year, as the first members of our baby-boom generation reach the minimum age for receiving Social Security benefits, there are about five working-age people--between the ages of twenty and sixty-four--for each person age sixty-five and older. The intermediate projections of the Social Security Trustees show that by the time most of the baby boomers will have retired in 2030 the ratio of those of working age to those aged sixty-five and older will have declined to around three. Further expected increases in the average life expectancy of our population, along with projections of steady rates of fertility and immigration, will tend to push this ratio down even a little more in the years after the baby boomers have all retired. While the projected fiscal imbalances associated with the Social Security system are not as large as those that will likely arise from the federal health-care programs, they still are significant and present an important challenge to fiscal policy makers.

Finally, your report also notes the fairly widespread agreement that our tax code is often complicated, inefficient and inequitable. Reforms that simplify the tax system could provide tangible economic benefits by reducing the resources necessary for households and businesses to comply with the tax code. Also, a general economic principle of tax reform is that the economic efficiency of a tax system can usually be enhanced if tax rates can be lowered while at the same time broadening the tax base in order to raise the same amount of revenue. However, reforming the tax structure is not easy as it involves not only choosing to lower tax rates but also the difficult decisions of how to broaden the tax base. Indeed, changes to the structure of the tax system that may improve its efficiency may not be judged to be equitable. Nevertheless, the choices that are made regarding both the size and structure of the federal tax system will affect a wide range of economic incentives that will be part of determining the future economic performance of our nation.

I hope you find these comments helpful.

Sincerely,

A handwritten signature in black ink, appearing to be 'P. Ryan', written in a cursive style.